

VALLEY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education (Before September 2009 Election)

Rick Klann	President	2009
Mick Olson	Vice President	2011
Mark Howard	Board Member	2009
DeWayne Frazier	Board Member	2011
Dawn Daughton	Board Member	2011

Board of Education (After September 2009 Election)

Rick Klann	President	2013
Mark Howard	Vice President	2013
Mick Olson	Board Member	2011
Dawn Daughton	Board Member	2011
DeWayne Frazier	Board Member	Resigned Jun 21, 2010
Celeste Strong	Board Member (Appointed Jun 28, 2010)	2011

School Officials

Cathy Molumby	Superintendent	2010
Melissa Fettkether	District Treasurer And Business Manager	Indefinite
Carole Nading	District Secretary	Indefinite
Steven A. Wiedner	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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Independent Auditor's Report

To the Board of Education of
Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

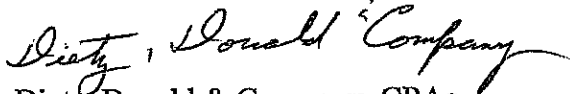
In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2011 on our consideration of Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 48 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

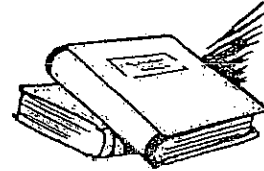
January 14, 2011


Dietz, Donald & Company, CPAs
FEIN 42-1172392

Valley Community School District

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www.valley.k12.ia.us



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2010. The analysis focuses on the District's financial statements as a whole. Please read it in conjunction with the District's financial statements, which follow this section.

2010 FINANCIAL HIGHLIGHTS

General Fund revenues decreased \$ 125,827 compared to FY09, while expenditures increased \$ 575,443. Total revenues of \$ 4,455,571 were less than total expenditures of \$ 4,975,269 by \$ 519,698. This resulted in a decrease in the District's General Fund balance from \$ 1,184,917 to \$ 596,803.

The decrease in revenues was mostly attributable to a decrease in state aid.

Instructional costs and support services increased \$ 296,025 and \$ 263,644, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Valley Community School District as a whole and present an overall view of the District's finances.

Equal Opportunity Employer

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Valley Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Valley Community School District acts solely as custodian for the benefit of those outside the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree's Health Plan.

Other Supplementary Information provides detailed information about the non-major government funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health and financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain

services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state laws and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

1. **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund is the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3. **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District currently has one Fiduciary Fund, an Agency Fund. Agency Funds are funds through which the District administers and accounts for assets that belong to the Northeast Iowa Health Occupation Consortium.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial

statements because it cannot use these assets to finance its operations.
The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS

Condensed Statement of Net Assets (Expressed in Thousands)								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30		June 30		June 30		June 30	
	2010	2009	2010	2009	2010	2009	2009-10	
Current and other assets	\$ 4,802	5,427	25	24	4,827	5,451	-11.4%	
Capital assets	<u>4,187</u>	<u>3,349</u>	<u>14</u>	<u>16</u>	<u>4,201</u>	<u>3,365</u>	<u>24.8</u>	
Total assets	<u>8,989</u>	<u>8,776</u>	<u>39</u>	<u>40</u>	<u>9,028</u>	<u>8,816</u>	<u>2.4</u>	
Long-term liabilities	2,258	1,972	-	-	2,258	1,972	14.5	
Other liabilities	<u>2,283</u>	<u>2,158</u>	<u>22</u>	<u>6</u>	<u>2,305</u>	<u>2,164</u>	<u>6.5</u>	
Total liabilities	<u>4,541</u>	<u>4,130</u>	<u>22</u>	<u>6</u>	<u>4,563</u>	<u>4,136</u>	<u>10.3</u>	
Net assets:								
Invested in capital assets, net of related debt	2,714	1,761	14	16	2,728	1,777	53.5	
Restricted	1,417	1,905	-	-	1,417	1,905	-25.6	
Unrestricted	<u>317</u>	<u>980</u>	<u>3</u>	<u>18</u>	<u>320</u>	<u>998</u>	<u>-67.9</u>	
Total net assets	<u>\$ 4,448</u>	<u>4,646</u>	<u>17</u>	<u>34</u>	<u>4,465</u>	<u>4,680</u>	<u>-4.3%</u>	

The District's combined net assets decreased by 4.3%, or approximately \$215,000 from the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$ 488,000 or 26%. The decrease was primarily a result of spending PPEL revenues on capital improvements.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$ 678,000 or nearly 68%. This decrease in unrestricted net assets was a result of a decrease in the General Fund balance of approximately \$ 588,000.

		Changes in Net Assets (Expressed in Thousands)						
		Governmental Activities		Business Type Activities		Total District		Total Change
		2010	2009	2010	2009	2010	2009	2009-10
Revenues:								
Program revenues:								
Charges for service	\$	462	312	128	118	590	430	37.2%
Operating grants and contributions		1,060	960	133	110	1,193	1,070	11.5
General revenues:								
Property tax		1,531	1,552	-	-	1,531	1,552	-1.4
Statewide sales, services and use tax		277	244	-	-	277	244	13.5
Income tax surtax		102	98	-	-	102	98	4.1
Unrestricted state grants		1,739	2,012	-	-	1,739	2,012	-13.6
Unrestricted investment earnings		29	57	-	1	29	58	-50.0
Other		34	21	-	-	34	21	61.9
Total revenues		5,234	5,256	261	229	5,495	5,485	0.2
Program expenses:								
Governmental activities:								
Instruction		3,434	3,023	-	-	3,434	3,023	13.6
Support services		1,686	1,537	-	-	1,686	1,537	9.7
Non-instructional programs		1	1	278	250	279	251	11.2
Other expenses		331	361	-	-	331	361	-8.3
Total expenses		5,452	4,922	278	250	5,730	5,172	10.8
Change in net assets		\$ -218	334	-17	-21	-235	313	-175.1%

In fiscal year 2010, property taxes and unrestricted state grants account for 12.5% of governmental activities revenue while charges for service and operating grants and contributions accounted for 100.0% of business type activities revenue.

The District's total revenues were approximately \$ 5.50 million of which \$ 5.23 million was for governmental activities and over \$ 261,000 was for business type activities.

As shown above, the District as a whole experienced a 0.2% increase in revenues and a 10.8% increase in expenses. Property taxes decreased approximately \$ 21,000, unrestricted state grants decreased approximately \$ 273,000, and operating grants and contributions increased approximately \$ 123,000.

Governmental Activities

Revenues for governmental activities were \$ 5,234,494 and expenses were \$ 5,452,398. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Total and Net Cost of Governmental Activities (Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 3,434	3,023	13.6%	\$ 2,232	2,041	9.4%
Support services	1,686	1,537	9.7	1,568	1,460	7.4
Non-instructional	1	1	-	1	1	-
Other expenses	331	361	-8.3	129	148	-12.8
Total	<u>\$ 5,452</u>	<u>4,922</u>	<u>10.8%</u>	<u>\$ 3,930</u>	<u>3,650</u>	<u>7.7%</u>

For the year ended June 30, 2010:

The cost financed by users of the District's programs was \$ 462,188.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 1,060,098.

The net cost of governmental activities was financed with \$ 1,910,015 in property and other taxes and \$ 1,738,436 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$ 261,009, representing a 14.1% increase over the prior year, while expenses totaled \$ 277,702, an 11.0% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 2,526,194, significantly below last year's ending fund balances of \$ 3,298,941. The primary reason for the decrease was that the District spent over \$ 1 million on capital improvements.

Governmental Fund Highlights

The General Fund balance decreased from \$ 1,184,917 to \$ 596,803 due, in part, to the negotiated salaries and benefits and existing expenditure commitments of the District.

The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$ 835,136 at the end of fiscal year 2009 to \$ 548,968 at the end of fiscal year 2010. While revenues remained approximately the same, the District substantially increased spending from the PPEL Fund for various capital projects.

The Capital Projects Fund balance remained virtually unchanged decreasing \$ 6,529 to \$ 986,978.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund increased 14.9% to \$ 261,009 while expenses increased 11.0% to \$ 277,702. The Nutrition Fund incurred a net loss of \$ 16,693 for fiscal year 2010 leaving a net asset balance of \$ 17,591.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget." In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its agency fund. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

A schedule showing original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

The District's revenues were \$ 409,979 less than budgeted revenues.

Total expenditures were \$ 1,302,557 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. In spite of the District's budgetary practice, the certified budget was exceeded in the instruction functional area due to the lease-purchase of lap top computers for students.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash." It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$ 4.19 million net of accumulated depreciation, in a broad range of capital assets in the governmental fund. This includes land, buildings, equipment and transportation equipment. **(See following chart.)** More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expenses for the year in the governmental funds was \$ 189,206.

The District has a capitalization threshold of \$ 3,000 per asset for governmental funds. The threshold remains at \$ 500 for business-type funds.

The School Nutrition Fund owned \$ 14,295 in assets, net of depreciation.

The largest capital acquisitions for FY10 was the purchase of computers for \$ 251,898 and improvements in the heating, ventilating and air conditioning system of \$ 600,673.

Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 33	33	-	-	33	33	0.0%
Construction in progress	-	5	-	-	-	5	-100.0
Site improvements	147	102	-	-	147	102	44.1
Buildings	3,353	2,852	-	-	3,353	2,852	17.6
Furniture and equipment	654	357	14	16	668	373	79.1
Total	\$ 4,187	3,349	14	16	4,201	3,365	24.8%

Long-Term Debt

At June 30, 2010, the District had \$ 2,151,747 in long-term debt outstanding. This represents an increase of approximately 12% from last year. (See following chart.)

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$ 5.4 million.

In August, 2009, the District issued an additional \$ 156,000 of QZAB notes and in February, 2010 financed the purchase of lap top computers with a \$ 251,898 lease-purchase agreement.

	Outstanding Long-Term Obligations (Expressed in Thousands)		
	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
Revenue bonds	\$ 610	695	-12.2%
Capital loan notes	1,340	1,184	13.2
Capital leases	202	42	381.0
Totals	\$ 2,152	1,921	12.0%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- Taxable valuation in the District decreased slightly from \$ 104,199,813 to \$ 103,629,530.
- Enrollment decreased 6.2% in September of 2009, which determines FY11 funding. Combined with 2% allowable growth, the District will receive \$ 39,817 more in state aid for 2010/11. Property tax receipts will decrease \$ 110,476 with a 6.7% decrease in tax rate.
- The ending fund balance is budgeted to decrease approximately \$ 601,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Fettkether, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.

Basic Financial Statements

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,949,276	8,420	2,957,696
Receivables:			
Property tax:			
Delinquent	49,112	-	49,112
Succeeding year	1,426,941	-	1,426,941
Accounts	2,188	349	2,537
Due from other funds	37,728	-	37,728
Due from other governments	336,273	-	336,273
Inventories	-	16,625	16,625
Capital assets, net of accumulated depreciation	4,187,185	14,295	4,201,480
TOTAL ASSETS	<u>8,988,703</u>	<u>39,689</u>	<u>9,028,392</u>
LIABILITIES			
Accounts payable	158,650	2,069	160,719
Salaries and benefits payable	520,276	14,602	534,878
Accrued interest payable	7,968	-	7,968
Deferred revenue:			
Succeeding year property tax	1,426,941	5,427	1,432,368
Other	169,457	-	169,457
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	90,000	-	90,000
Capital leases	75,999	-	75,999
Compensated absences	56,334	-	56,334
Early retirement	6,362	-	6,362
Portion due after one year:			
Revenue bonds	520,000	-	520,000
Capital leases	125,748	-	125,748
Notes	1,340,000	-	1,340,000
Early retirement	13,438	-	13,438
Net OPEB liability	29,443	-	29,443
TOTAL LIABILITIES	<u>4,540,616</u>	<u>22,098</u>	<u>4,562,714</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,714,016	14,295	2,728,311
Restricted for:			
Categorical funding	174,352	-	174,352
Management levy	305,972	-	305,972
Physical plant and equipment levy	330,938	-	330,938
Other special revenue purposes	77,423	-	77,423
Debt service	528,512	-	528,512
Unrestricted	316,874	3,296	320,170
TOTAL NET ASSETS	<u>\$ 4,448,087</u>	<u>17,591</u>	<u>4,465,678</u>

See notes to financial statements.

Exhibit B

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

FUNCTIONS/PROGRAMS:
Governmental activities:

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for services	Operating Grants and Contributions	Governmental Activities	Business type Activities
Instruction:					
Regular	\$ 2,081,147	183,122	573,082	(1,324,943)	-
Special	1,007,815	68,744	168,680	(770,391)	-
Other	344,906	191,370	16,909	(136,627)	-
	<u>3,433,868</u>	<u>443,236</u>	<u>758,671</u>	<u>(2,231,961)</u>	<u>(2,231,961)</u>
Support services:					
Student	193,192	42	67,638	(125,512)	-
Instructional staff	223,114	-	25,592	(197,522)	-
Administration	569,078	1,439	-	(567,639)	-
Plant operation and maintenance	431,651	11,370	6,463	(413,818)	-
Transportation	269,188	6,101	-	(263,087)	-
	<u>1,686,223</u>	<u>18,952</u>	<u>99,693</u>	<u>(1,567,578)</u>	<u>(1,567,578)</u>
Non-instructional programs	1,563	-	-	(1,563)	-
Other expenditures:					
Long-term debt interest	18,649	-	-	(18,649)	-
AEA flowthrough	201,734	-	201,734	-	-
Depreciation (unallocated)	110,361	-	-	(110,361)	-
	<u>330,744</u>	<u>-</u>	<u>201,734</u>	<u>(129,010)</u>	<u>(129,010)</u>
	<u>5,452,398</u>	<u>462,188</u>	<u>1,060,098</u>	<u>(3,930,112)</u>	<u>(3,930,112)</u>
Total governmental activities					
Business type activities:					
Non-instructional programs:					
Food service operations	277,702	128,248	132,723	-	(16,731)
	<u>\$ 5,730,100</u>	<u>590,436</u>	<u>1,192,281</u>	<u>(3,930,112)</u>	<u>(16,731)</u>
GENERAL REVENUES:					
Property tax levied for:					
General purposes				1,463,686	-
Capital outlay				67,522	-
Statewide sales services and use tax				276,845	-
Income tax surtax				101,962	-
Unrestricted state grants				1,738,436	-
Unrestricted investment earnings				29,378	38
Other				34,379	-
				<u>3,712,208</u>	<u>38</u>
Total general revenues				(217,904)	(16,693)
Changes in net assets				4,665,991	34,284
Net assets beginning of year, as restated				\$ 4,448,087	17,591
Net assets end of year					<u>4,465,678</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Special Revenue Property Plant and Equipment Levy	Capital Projects	Nonmajor	Total
ASSETS					
Cash and cash equivalents	\$ 1,023,849	588,386	945,628	391,413	2,949,276
Receivables:					
Property tax:					
Delinquent	41,554	2,755	-	4,803	49,112
Succeeding year	1,250,795	66,146	-	110,000	1,426,941
Accounts	2,188	-	-	-	2,188
Due from other funds	127,582	33,155	25,277	-	186,014
Due from other governments	257,380	16,290	62,603	-	336,273
TOTAL ASSETS	\$ 2,703,348	706,732	1,033,508	506,216	4,949,804

LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 155,879	-	-	2,771	158,650
Salaries and benefits payable	520,276	-	-	-	520,276
Due to other funds	26,421	75,335	46,530	-	148,286
Deferred revenue:					
Succeeding year property tax	1,250,795	66,146	-	110,000	1,426,941
Other	153,174	16,283	-	-	169,457
TOTAL LIABILITIES	2,106,545	157,764	46,530	112,771	2,423,610
Fund balances:					
Reserved for:					
Categorical funding	174,352	-	-	-	174,352
Debt service	-	218,030	310,482	10,050	538,562
Unreserved	422,451	330,938	676,496	383,395	1,813,280
Total fund balances	596,803	548,968	986,978	393,445	2,526,194
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,703,348	706,732	1,033,508	506,216	4,949,804

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total fund balances of governmental funds (page 20)	\$ 2,526,194
Amounts reported for governmental activities in the Statement of Net Assets are different because:	—
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	4,187,185
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(7,968)
Long-term liabilities, including bonds and notes payable, compensated absences, early retirement and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(2,257,324)</u>
Net assets of governmental activities (page 18)	\$ <u>4,448,087</u>

See notes to financial statements.

Exhibit E

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	General	Special Revenue Property Plant and Equipment Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,372,359	84,433	276,845	176,296	1,909,933
Tuition	138,133	-	-	-	138,133
Other	131,991	7,099	14,116	220,134	373,340
State sources	2,246,320	-	-	-	2,246,320
Federal sources	566,768	-	-	-	566,768
Total revenues	4,455,571	91,532	290,961	396,430	5,234,494
Expenditures:					
Current:					
Instruction:					
Regular	1,973,780	251,898	-	27,209	2,252,887
Special	1,001,149	-	-	-	1,001,149
Other	131,028	-	-	215,847	346,875
	3,105,957	251,898	-	243,056	3,600,911
Support services:					
Student	190,930	-	-	841	191,771
Instructional staff	212,658	25,245	-	582	238,485
Administration	544,436	-	-	14,841	559,277
Plant operation and maintenance	385,128	114,976	10,205	20,311	530,620
Transportation	333,458	-	-	8,140	341,598
	1,666,610	140,221	10,205	44,715	1,861,751
Non-instructional programs	968	-	-	595	1,563
Other expenditures:					
Facilities acquisition	-	393,464	158,061	-	551,525
Long-term debt:					
Principal	-	-	-	177,519	177,519
Interest and fiscal charges	-	15	-	20,121	20,136
AEA flowthrough	201,734	-	-	-	201,734
	201,734	393,479	158,061	197,640	950,914
	4,975,269	785,598	168,266	486,006	6,415,139
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	(519,698)	(694,066)	122,695	(89,576)	(1,180,645)

(continued)

Exhibit E
(continued)

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	General	Levy	Equipment	Capital	Nonmajor	Total
			Plant and	Projects		
			Property			
			Revenue			
			Special			
Other financing sources (uses):						
Revenue bonds issued	-	156,000	-	-	-	156,000
Proceeds from lease purchases	-	251,898	-	-	-	251,898
Operating transfers in	-	-	-	-	197,640	197,640
Operating transfers out	(68,416)	-	-	(129,224)	-	(197,640)
Total other financing sources (uses)	(68,416)	407,898	(129,224)	197,640	407,898	
Net change in fund balances	(588,114)	(286,168)	(6,529)	108,064	(772,747)	
Fund balances beginning of year, as restated	1,184,917	835,136	993,507	285,381	3,298,941	
Fund balances end of year	\$ 596,803	\$ 548,968	\$ 986,978	\$ 393,445	\$ 2,526,194	

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2010

Net change in fund balances-total governmental funds (page 23) \$ (772,747)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation in the current year as follows:

Expenditures for capital assets	\$1,027,831	
Depreciation expense	<u>(189,206)</u>	838,625

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	\$ (407,898)	
Repaid	<u>177,519</u>	(230,379)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,487

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds as follows:

Early retirement	\$ (19,800)	
Compensated absences	(5,647)	
Other postemployment benefits	<u>(29,443)</u>	<u>(54,890)</u>

Change in net assets of governmental activities (page 19) \$ (217,904)

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2010

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 8,420
Accounts receivable	349
Inventories	16,625
Capital assets, net of accumulated depreciation	<u>14,295</u>
TOTAL ASSETS	<u>39,689</u>
LIABILITIES	
Accounts payable	2,069
Salaries and benefits payable	14,602
Deferred revenue	<u>5,427</u>
TOTAL LIABILITIES	<u>22,098</u>
NET ASSETS	
Invested in capital assets	14,295
Unrestricted	<u>3,296</u>
TOTAL NET ASSETS	<u>\$ 17,591</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2010

	School <u>Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ <u>128,248</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	111,283
Benefits	42,326
Purchased services	3,739
Supplies	118,506
Depreciation	<u>1,848</u>
Total operating expenses	<u>277,702</u>
Operating loss	<u>(149,454)</u>
Non-operating revenues:	
State sources	2,568
Federal sources	130,155
Interest income	<u>38</u>
Total non-operating revenues	<u>132,761</u>
Net loss	(16,693)
Net assets beginning of year	<u>34,284</u>
Net assets end of year	\$ <u>17,591</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2010

	School <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sales of lunches and breakfasts	\$ 125,912
Cash received from miscellaneous operating activities	2,247
Cash paid to employees for services	(139,239)
Cash paid to suppliers for goods or services	<u>(100,270)</u>
Net cash used by operations activities	<u>(111,350)</u>
Cash flows from non-capital financing activities:	
State grants received	2,568
Federal grants received	<u>107,178</u>
Net cash provided by non-capital financing activities	<u>109,746</u>
Cash flows from investing activities:	
Interest on investments	<u>38</u>
Net decrease in cash and cash equivalents	(1,566)
Cash and cash equivalents beginning of year	<u>9,986</u>
Cash and cash equivalents end of year	<u>\$ 8,420</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (149,454)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	22,977
Depreciation	1,848
Increase in accounts receivable	(229)
Increase in inventories	(3,071)
Increase in accounts payable	2,069
Increase in salaries and benefits payable	14,370
Increase in deferred revenue	<u>140</u>
Net cash used by operating activities	<u>\$ (111,350)</u>
Non-cash investing and financing activities:	
During the year ended June 30, 2010, the District received \$ 22,977 of federal commodities.	

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

	<u>Agency</u>
ASSETS	
Due from other governments	\$ 37,728
LIABILITIES	
Due to other funds	<u>37,728</u>
NET ASSETS	\$ <u> -</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District had no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentations

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue Property Plant and Equipment Levy Fund is used to account for revenues derived from the property, plant and equipment levy which are required by law to be accounted for in a separate fund.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these fund on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Boards of Supervisors in April 2009.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method

for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repair that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Year)</u>
Buildings	20-50
Improvements other than buildings	20
Furniture and equipment	3-12

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to

pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable, other receivables not collected within sixty days after year end and lunch fees collected in advance.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, lunch fees collected in advance and unspent federal grants.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the instruction functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 1,119,203

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Restricted Cash - Cash held in escrow by the Bank of America for retirement of QZAB bonds (see note 6) is as follows:

Special Revenue Property, Plant and Equipment	
Levy Fund	\$ 218,030
Capital Projects Fund	<u>310,482</u>
Total	<u>\$ 528,512</u>

Investment Rate Risk - The District's investment policy limit's the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the District.

Credit Risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 37,728
	Special Revenue:	
	Property, Plant and	

	Equipment Levy	75,335
	Capital Projects	<u>14,519</u>
		<u>127,582</u>
Special Revenue:		
Property, Plant and Equipment Levy	Capital Projects	32,011
	General	<u>1,144</u>
		<u>33,155</u>
Capital Projects	General	<u>25,277</u>
Total		<u>\$ 186,014</u>

The Agency Fund is repaying the General Fund for items paid by the General Fund, while the Agency Fund was awaiting payment from other school districts.

The Special Revenue: Property, Plant and Equipment Levy Fund is reimbursing the General Fund for bus lease payments.

The Capital Projects Fund is reimbursing the General Fund for copier lease payments.

The Capital Projects Fund is reimbursing the Special Revenue: Property, Plant and Equipment Levy Fund for bus lease payments.

The General Fund is repaying the Special Revenue: Property, Plant and Equipment Levy Fund for property taxes that were incorrectly recorded during the current year.

~~The General Fund is paying the Capital Projects Fund for sales tax initially credited to the General Fund.~~

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 129,224
	General	<u>68,416</u>
Total		<u>\$ 197,640</u>

Transfers generally move revenues from the fund statutorily required to collect the

resources to the fund statutorily required to expend the resources.

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,907	0	0	32,907
Construction in progress	5,000	0	5,000	0
Total capital assets not being Depreciated	37,907	0	5,000	32,907
Capital assets being depreciated:				
Buildings	4,332,406	600,673	0	4,933,079
Site improvements	144,239	55,297	0	199,536
Furniture and equipment	804,737	376,862	0	1,181,599
Total capital assets being Depreciated	5,281,382	1,032,832	0	6,314,214
Less accumulated depreciation for:				
Buildings	1,479,950	100,384	0	1,580,334
Site improvements	42,739	9,977	0	52,716
Furniture and equipment	448,041	78,845	0	526,886
Total accumulated depreciation	1,970,730	189,206	0	2,159,936
Total capital assets being Depreciated, net	3,310,652	843,626	0	4,154,278
Governmental activities Capital assets, net	\$ 3,348,559	843,626	5,000	4,187,185
Business type activities:				
Furniture and equipment	\$ 77,581	0	0	77,581
Less accumulated depreciation	61,438	1,848	0	63,286
Business type activities Capital assets, net	\$ 16,143	(1,848)	0	14,295

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 71,206
Other	1,298
Support services:	
Instructional staff	6,341
Unallocated	<u>110,361</u>
Total depreciation expense - governmental activities	<u>\$ 189,206</u>
Business type activities:	
Food service operations	<u>\$ 1,848</u>

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30 2010 are summarized below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 695,000	0	85,000	610,000	90,000
Notes Payable	1,184,000	156,000	0	1,340,000	0
Capital Leases	42,367	183,482	24,102	201,747	75,999
Compensated Absences	50,688	15,402	9,756	56,334	56,334
Early Retirement	0	19,800	0	19,800	6,362
Net OPEB Liability	0	29,443	0	29,443	0
Total	<u>\$ 1,972,055</u>	<u>404,127</u>	<u>118,858</u>	<u>2,257,324</u>	<u>228,695</u>

Revenue Bonds Payable

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year	<u>Bond Issue Sep 1, 2003</u>			<u>Bond Issued Dec 28, 2003</u>				
Ending	Interest			Interest			Total	
June 30,	Rates	Principal	Interest	Rates	Principal	Principal	Interest	Total
2011	3.80	90,000	14,225	0	0	90,000	14,225	104,225
2012	4.00	95,000	10,615	0	0	95,000	10,615	105,615
2013	4.20	100,000	6,615	0	0	100,000	6,615	106,615
2014	4.30	105,000	2,257	0	220,000	325,000	2,257	327,257
Total		<u>\$ 390,000</u>	<u>33,712</u>	<u>0</u>	<u>220,000</u>	<u>610,000</u>	<u>33,712</u>	<u>643,712</u>

The statewide sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 statewide sales, services and use tax revenue bonds included the following:

- A] \$ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited in the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.
- B] All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- C] Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- D] Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 statewide sales, services and use tax revenue bond included the following provision:

To provide for the payments of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa, an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund \$ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity. At June 30, 2010 the escrow account balance was \$ 141,082.

Notes Payable

During the year ended June 30, 2004, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping,

rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. At June 30, 2010, the escrow account balance was \$ 218,030. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

During the year ended June 30, 2009, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On February 12 of each year commencing February 12, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 84,400 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity February 12, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 84,400, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2010, the escrow account balance was \$ 84,400.

During the year ended June 30, 2010, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On August 26 of each year commencing August 26, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 15,600 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity August 26, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 15,600, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

Detail of the District's indebtedness under these agreements in effect at June 30, 2010 are as follows:

Year	December 28, 2003		February 12, 2009		August 26, 2009		
Ending	<u>Capital Loan Notes</u>		<u>Capital Loan Notes</u>		<u>Capital Loan Notes</u>		
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 340,000	0	0	0	0	0	340,000
2019	0	0	844,000	0	0	0	844,000
2020	0	0	0	0	156,000	0	156,000
Total	\$ 340,000	0	844,000	0	156,000	0	1,340,000

Capital Leases

The District entered into lease-purchase agreements in connection with the acquisition of computer equipment. Details of the District's indebtedness under these agreements in effect at June 30, 2010 are as follows:

Year Ending June 30,	Capital Leases						
	Apr 15, 2008 @ 4.49%		May 19, 2010 @ 5.67%		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	\$ 18,265	820	57,734	10,682	75,999	11,502	87,501
2012	0	0	61,095	7,321	61,095	7,321	68,416
2013	0	0	64,653	3,763	64,653	3,763	68,416
Total	\$ 18,265	820	183,482	21,766	201,747	22,586	224,333

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50603-9117

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Contributions requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$ 193,623, \$ 189,182, and \$ 167,674, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 71 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan

with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 31,993
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	31,993
Contributions made	<u>2,550</u>
Increase in net OPEB obligation	29,443
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u>\$ 29,443</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$ 390,860 to the medical plan. Plan members eligible for benefits contributed \$ 45,957 or 11% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 31,993	8.0%	\$ 29,443

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$ 261,909, with no actuarial accrued value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 261,909. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$ 2.476 million and the ratio of the UAAL to covered payroll was 10.6%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the sections following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual and ultimate medical trend rates are 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$ 1,014 per month for retirees less than age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group basis over 30 years.

(9) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 201,734 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Lease Commitments

The District has various leases for equipment which are classified as operating leases. Rent expenses for all operating leases for the year ended June 30, 2010 totaled \$ 108,424.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 41,623
2012	60,523
2013	23,701

(12) Prior Period Adjustment

The District discovered that its accounts receivable were understated by \$ 22,219 and its accounts payable were understated by \$ 1,903 at June 30, 2009. This resulted in net assets in the governmental activities column of the statement of net assets and the fund balance of the general fund column of the governmental funds balance sheet being understated by \$ 20,316 at June 30, 2009. In addition, the change in net assets in the governmental activities column of the statement of activities and the net change in fund balances in the general fund column of the governmental funds statement of revenues, expenditures and changes in fund balances were understated by \$ 20,316 for the year ended June 30, 2009.

(13) Categorical Funding

The District's reserved fund balance for categorical funding is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
ESL	\$ 1,937
At Risk	6,844
Gifted and Talented	36,522
Returning dropout and dropout prevention	25,669
Year 2+ Preschool	38,147
Mentoring	3,975
Educator quality, professional development	13,323
Early Intervention	4,763
Vocational Aid	3,966
Model Care Curriculum	14,381
Market Factor	3,707
Pepsi Grant	2,645
Spell-a-thon	11,417
Green Schools	5,925
Butterfly Garden - Special Ed	<u>1,131</u>
Total	<u>\$ 174,352</u>

Required Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2010

	Governmental Funds	Actual	Proprietary Fund	Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
						Original	Final	
Revenues:								
Local sources	\$ 2,421,406		128,286		2,549,692	2,645,009	2,645,009	(95,317)
State sources	2,246,320		2,568		2,248,888	2,833,771	2,833,771	(584,883)
Federal sources	566,768		130,155		696,923	539,400	539,400	157,523
Total revenues	5,234,494		261,009		5,495,503	6,018,180	6,018,180	(522,677)
Expenditures/Expenses:								
Instruction	3,600,911		-		3,600,911	3,319,100	3,450,000	(150,911)
Support services	1,861,751		-		1,861,751	2,463,000	2,463,000	601,249
Non-instructional programs	1,563		277,702		279,265	530,500	530,500	251,235
Other expenditures	950,914		-		950,914	768,167	1,300,000	349,086
Total Expenditures/Expenses	6,415,139		277,702		6,692,841	7,080,767	7,743,500	1,050,659
Deficiency of revenues under expenses	(1,180,645)		(16,693)		(1,197,338)	(1,062,587)	(1,725,320)	527,982
Other financing sources, net	407,898		-		407,898	295,200	295,200	112,698
Deficiency of revenues and other financing sources under expenditures								
expenditures/expenses and other financing uses	(772,747)		(16,693)		(789,440)	(767,387)	(1,430,120)	640,680
Balances beginning of year	3,298,941		34,284		3,333,225	2,539,580	2,539,580	793,645
Balances end of year	\$ 2,526,194		17,591		2,543,785	1,772,193	1,109,460	1,434,325

See accompanying independent auditor's report and notes to required
Supplementary information-budgetary reporting.

Valley Community School District

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment. It increased budgeted expenditures by \$ 662,733.

During the year ended June 30, 2010, expenditures in the instruction function exceeded the amount budgeted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered (b-a)/c
2010	July 1, 2009	\$ -	266	266	0.0%	\$ 2,476	10.7

See accompanying independent auditor's report and Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR FUNDS GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue			
	Management	Student	Debt	
	Levy	Activity	Service	Total
ASSETS				
Cash and pooled investments	\$ 301,169	80,194	10,050	391,413
Receivables:				
Property tax:				
Delinquent	4,803	-	-	4,803
Succeeding year	110,000	-	-	110,000
TOTAL ASSETS	\$ 415,972	80,194	10,050	506,216
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	2,771	-	2,771
Deferred revenue:				
Succeeding year				
property tax	110,000	-	-	110,000
Total liabilities	110,000	2,771	-	112,771
Fund balances:				
Reserved for:				
Debt service	-	-	10,050	10,050
Unreserved	305,972	77,423	-	383,395
Total fund balances	305,972	77,423	10,050	393,445
TOTAL LIABILITIES AND				
FUND BALANCES	\$ 415,972	80,194	10,050	506,216

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2010

	Special Revenue			Total
	Management Levy	Student Activity	Debt Service	
Revenues:				
Local sources:				
Local tax	\$ 176,296	-	-	176,296
Other	10,569	209,521	44	220,134
Total revenues	<u>186,865</u>	<u>209,521</u>	<u>44</u>	<u>396,430</u>
Expenditures:				
Current:				
Instruction:				
Regular	27,209	-	-	27,209
Other	-	215,847	-	215,847
Support services:				
Student	841	-	-	841
Instructional staff	582	-	-	582
Administration	14,841	-	-	14,841
Plant operation and maintenance	20,311	-	-	20,311
Transportation	8,140	-	-	8,140
Non-instructional programs	595	-	-	595
Other expenditures:				
Long-term debt:				
Principal	-	-	177,519	177,519
Interest and fiscal charges	-	-	20,121	20,121
Total expenditures	<u>72,519</u>	<u>215,847</u>	<u>197,640</u>	<u>486,006</u>
Excess (deficiency) of revenues over (under) expenditures	114,346	(6,326)	(197,596)	(89,576)
Other financing sources:				
Operating transfers in	-	-	197,640	197,640
Excess (deficiency) of revenues and other financing sources over (under) expenditures	114,346	(6,326)	44	108,064
Fund balances beginning of year	191,626	83,749	10,006	285,381
Fund balances end of year	<u>\$ 305,972</u>	<u>77,423</u>	<u>10,050</u>	<u>393,445</u>

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Interest	\$ 79	2,466	-	(2,096)	449
Drama	5,672	4,143	2,658	-	7,157
Junior High Drama	2,349	781	835	-	2,295
Speech	-	665	1,114	-	(449)
Vocal Music	7,123	4,783	5,115	8,315	15,106
Music Trip	12,000	36,767	54,724	5,957	-
Instrumental Music	(2,073)	3,001	994	4,301	4,235
Band Carnival	8,352	7,774	2,734	-	13,392
Band Uniforms	14,251	717	-	-	14,968
Music Fundraisers	11,438	21,470	14,352	(18,556)	-
Junior High Athletics	(14,323)	1,633	3,673	-	(16,363)
Youth Baseball/Softball	98	-	-	-	98
Football Cheerleaders	807	-	848	-	(41)
Drill Team	1,410	1,945	2,626	-	729
Wrestling Cheerleaders	224	448	471	-	201
Girls' Track Fundraiser	2,219	1,711	932	-	2,998
Cross Country Fundraiser	2,310	-	-	-	2,310
Boys' Basketball Fundraiser	1,146	4,316	3,252	-	2,210
Football Fundraiser	10,336	5,530	2,358	-	13,508
Baseball Fundraiser	2,734	3,062	5,520	-	276
Wrestling Fundraiser	932	-	-	-	932
Girls' Basketball Fundraiser	3,630	2,880	3,910	-	2,600
Girls' State Basketball Tournament	891	-	207	-	684
Volleyball Fundraiser	2,476	1,067	1,321	-	2,222
Softball Fundraiser	1,549	782	586	-	1,745
General Athletics	(19,457)	38,849	41,335	-	(21,943)
Student O	1,371	3,827	3,742	-	1,456
Athletic Resale	7,863	-	556	-	7,307
FFA	3,730	34,241	33,909	-	4,062
National Honor Society	-	-	107	107	-
Student Council	62	5,380	8,493	2,067	(984)
Junior High Council	1,130	1,612	1,866	-	876
Yearbook	5,238	6,508	7,110	1,872	6,508

(continued)

Schedule 3
(continued)

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of of Year
Class of 2010	4,902	-	2,935	(1,967)	-
Class of 2011	1,341	12,056	7,564	-	5,833
Class of 2012	841	220	-	(330)	731
Class of 2013	780	280	-	330	1,390
Class of 2014	318	293	-	-	611
Class of 2015	-	217	-	-	217
Cinder Track	-	98	-	-	98
Total	\$ 83,749	209,522	215,847	-	77,424

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash	\$ -	102,028	102,028	-
Due from other governments	<u>15,609</u>	<u>80,489</u>	<u>58,370</u>	<u>37,728</u>
TOTAL ASSETS	\$ <u>15,609</u>	<u>182,517</u>	<u>160,398</u>	<u>37,728</u>
LIABILITIES				
Accounts payable	-	144,789	144,789	-
Due to other funds	<u>15,609</u>	<u>37,728</u>	<u>15,609</u>	<u>37,728</u>
TOTAL LIABILITIES	\$ <u>15,609</u>	<u>182,517</u>	<u>160,398</u>	<u>37,728</u>

See accompanying independent auditor's report.

Schedule 5

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,909,933	1,894,099	1,906,664	1,775,571	1,778,963	1,766,838	1,688,618
Tuition	138,133	91,017	113,533	106,734	85,134	80,288	113,882
Other	373,340	349,125	296,143	263,299	329,152	296,600	257,836
Intermediate sources	-	-	-	6,460	-	-	-
State sources	2,246,320	2,640,325	2,783,929	2,624,274	2,533,585	2,387,749	2,217,454
Federal sources	566,768	280,828	209,152	197,139	225,582	419,049	1,050,836
Total	\$ 5,234,494	5,255,394	5,309,421	4,973,477	4,952,416	4,950,524	5,328,626
Expenditures:							
Instruction:							
Regular	\$ 2,252,887	1,843,788	1,896,250	1,804,343	1,658,069	1,617,642	1,672,441
Special	1,001,149	874,493	851,606	885,510	889,263	764,552	651,501
Other	346,875	278,325	274,651	264,223	306,623	368,660	421,808
Support services:							
Student	191,771	181,668	152,853	108,143	106,469	109,244	97,044
Instructional staff	238,485	163,025	145,670	143,392	146,601	110,504	145,799
Administration	559,277	522,636	491,057	512,477	537,970	520,321	483,493
Plant operation and maintenance	530,620	731,418	387,980	363,446	458,363	367,752	372,824
Transportation	341,598	226,657	216,711	208,027	156,996	212,092	233,259
Central Support	-	-	-	-	-	1,813	1,574
Non-instructional programs	1,563	793	1,458	1,318	2,712	750	564
Other expenditures:							
Facilities acquisition	551,525	81,255	35,575	112,109	43,597	591,851	1,334,186
Long-term debt:							
Principal	177,519	104,696	221,671	220,000	220,000	215,000	135,000
Interest and other charges	20,136	22,371	30,333	37,954	46,747	54,828	90,423
AEA flowthrough	201,734	186,928	186,469	177,469	172,207	169,150	169,534
Total	\$ 6,415,139	5,218,053	4,892,284	4,838,411	4,745,617	5,104,159	5,809,450

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 20, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program:	10.553	FY 10	\$ 16,211
National School Lunch Program:	10.555	FY 10	113,817 *
Special Milk Program	10.556	FY 10	<u>127</u>
			<u>130,155</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local			
Education Agencies	84.010	FY 10	53,082
ARRA Title I Grants to Local			
Education Agencies, Recovery Act	84.389	FY 10	<u>18,837</u>
			<u>71,919</u>
Safe and Drug Free Schools and			
Communities – State Grants	84.186	FY10	<u>57,408</u>
State Program Improvement			
Grants for Children with Disabilities	84.323	FY 10	<u>1,949</u>
Rural Education Achievement Program	84.358a	FY 10	<u>43,008</u>
Improving Teacher Quality – State Grants	84.367	FY 10	<u>20,528</u>
Grant for State Assessment			
and Related Activities (Title VIA)	84.369	FY 10	<u>3,185</u>
ARRA – State Fiscal Stabilization			
Fund (SFSF) Education State			
Grants, Recovery Act	84.394	FY 10	<u>235,914</u>
Keystone Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	FY 10	23,967
Special Education – Preschool Grant	84.173	FY 10	826
ARRA Special Education Grants			
To States, Recovery Act	84.391	FY 10	<u>39,321</u>
			<u>64,114</u>
Career and Technical Education –			
Basic Grants to States	84.048	FY 10	<u>251</u>
Total			<u>\$ 628,431</u>

*Includes \$22,077 of non-cash awards
(continued)

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 20, 2010

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Valley Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Valley Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 14, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Valley Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Valley Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow managements or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

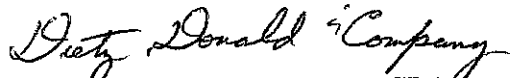
Valley Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Valley Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Valley Community School District and other parties to whom Valley Community School District may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

January 14, 2011


Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education of the
Valley Community School District

Compliance

We have audited Valley Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Valley Community School District's major federal programs for the year ended June 30, 2010. Valley Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Valley Community School District's management. Our responsibility is to express an opinion on Valley Community School District based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Community School District's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valley Community School District's compliance with those requirements.

In our opinion, Valley Community School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance


The management of Valley Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valley Community School District's internal control over compliance with the requirements that could have a direct and material effect on a major program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Valley Community School District and other parties to whom Valley Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa
January 14, 2011


Dietz, Donald & Company, CPAs
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- [a] Unqualified opinions were issued on the financial statements.
- [b] The audit of the financial statements disclosed no material weaknesses in internal control over financial reporting.
- [c] The audit did not disclose any noncompliance which is material to the financial statements.
- [d] The audit of the financial statements disclosed no material weaknesses in internal control over the major programs.
- [e] An unqualified opinion was issued on compliance with requirements applicable to each major program.
- [f] The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- [g] Major Programs were as follows:
 - CFDA Number 84.394-ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
 - Clustered programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk Program
- [h] The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- [i] Valley Community School District did not qualify as a low-risk auditee.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE;

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE

No matters were noted.

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

No material weaknesses were identified.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-10 **Certified Budget** - Expenditures for the year ended June 30, 2010 exceeded the certified budget amounts in the instruction function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

IV-B-10 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-10 **Travel Expenses** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

IV-D-10 **Business Transactions** - No business transactions between the District and District officials or employees were noted.

IV-E-10 **Bond Coverage** - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-10 **Board Minutes** - No record of approval of the budget amendment was noted as required by Chapter 24.9 of the Code of Iowa.

Recommendation - Budget amendment approval needs to be noted in the official District minutes.

Response - The hearing notice and budget amendment were published as required. Not reporting the approval in the minutes was an oversight and will not happen in the future.

Conclusion - Response accepted.

IV-G-10 **Certified Enrollment** - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-10 **Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 **Deposits and Investments** - No instances of non-compliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted

IV-J-10 **Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-10 **Revenue Bonds** - No instances of non-compliance with the revenue bond resolution were noted.

IV-L-10 **Categorical Funding** - No instances of categorical funding being used to support rather than supplement other funds were noted.

IV-M-10 **Statewide Sales, Services and Use Tax** - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance	\$ 244,425
Statewide sales, services and use tax revenue	<u>276,845</u>
Ending Balance	<u>\$ 521,270</u>

IV-N-10 **Deficit Balances** - Three student activity accounts had deficit balances at June 30, 2010.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion - Response accepted.